

401(k) Plans

Although 401(k) plans had been authorized by statute in 1978, few private employers introduced them until after preliminary regulations were issued in 1981. By May 1983, 4.8 million employees or 7 percent of all private-sector employees reported having access to 401(k) plans.^{9/} Accessibility has grown rapidly since, but information on the plans is limited to those of larger employers.^{10/} A survey of medium- and large-sized firms by the Bureau of Labor Statistics found that 26 percent, or 5.3 million, employees of these firms had access to 401(k) plans.^{11/} These firms have 20.5 million full-time employees, about one-fourth of all private full-time employees. Some smaller firms also offer 401(k) plans, but the incidence is certainly lower. Much of the expansion of 401(k) plans has been as a substitute for other plans, particularly thrift plans under which contributions are not deductible.

Participation rates in 401(k) plans appear to be higher than in IRAs. The 1983 CPS found that 39.1 percent of the 4.8 million people offered a 401(k) plan contributed to it, while only 16.5 percent of all private employees contributed to an IRA in that year.

The higher participation rate in 401(k) plans is not surprising. To begin with, those firms that decided quickly to offer 401(k) plans probably had employees who were interested in such saving. Moreover, several features of 401(k) plans make them more attractive than IRAs: many employers match employee contributions; the contribution limit is generally higher than for an IRA; loans are often permitted; and funds may be withdrawn without penalty before retirement in certain cases of need.

The difference between participation rates for 401(k) plans and for IRAs is greatest among younger and lower-paid employees. For example, among privately employed people age 25 to 34 who had access to a 401(k) plan, 31 percent participated compared with 11 percent of the same age group who contributed to an IRA. Also, among private employees earning \$10,000 to \$15,000, 28 percent with access to a 401(k) plan contributed to it compared with the 11 percent of employees in the same earnings group who contributed to an IRA (see Table 21).

9. Andrews, *Changing Profiles of Pensions*, p. 83.

10. Data on salary reduction plans other than 401(k) are largely unavailable.

11. U.S. Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms 1985* (July 1986), p. 76

TABLE 21. 401(k) USAGE (MAY 1983) AND IRA USAGE (1982) AMONG PRIVATE NONAGRICULTURAL WAGE AND SALARY WORKERS, BY EARNINGS AND AGE GROUPS

	Section 401(k) Deferred Compensation		Individual Retirement Accounts	
	Number Offered Plan (thousands)	Rate of Participation (percent)	Number of Workers (thousands)	Rate of Participation (percent)
Total	4,822	39.1	72,465	16.5
Age				
Under 25 years	555	19.8	16,415	2.3
25 - 34	1,627	30.7	21,553	11.0
35 - 44	1,364	43.0	14,681	18.5
45 - 54	795	49.5	10,627	30.3
55 - 59	302	56.9	4,723	39.9
60 - 64	139	68.1	2,835	37.1
65 and Over	a/	a/	1,630	20.3
Earnings (In dollars)				
1 - 4,999	111	a	8,551	6.3
5,000 - 9,999	379	20.2	13,305	7.3
10,000 - 14,999	791	28.0	14,459	10.7
15,000 - 19,999	934	33.7	10,196	16.8
20,000 - 24,999	769	39.9	7,842	19.3
25,000 - 29,999	574	45.4	4,292	27.8
30,000 - 49,999	832	51.5	5,336	38.2
50,000 and over	273	62.1	1,412	58.9

SOURCE: Emily Andrews, *The Changing Profile of Pensions in America* (Washington, D.C.: Employee Benefits Research Institute), 1985, p. 84. Tabulations of the May 1983 Current Population Survey pension supplement.

a. Number of workers too small for rates to be calculated reliably.

Use of 401(k) plans is much more extensive in very large firms than in smaller firms. A 1985 survey of 195 firms with average employment of 25,000 found almost 60 percent of the employees were offered plans and 75 percent of these contributed.^{12/} Participating employees contributed an average 6.7 percent of earnings to the 401(k) plan. Variation in plan use at these large firms suggests that special features of 401(k) plans helped to raise participation above that in IRAs. Participation was higher in plans in which employers matched employee contributions, in which funds could be withdrawn in case of need, and in which borrowing was permitted.

The 1986 tax reform is unlikely to reduce the interest in 401(k) plans. Most employees will not be affected by the \$7,000 ceiling on contributions, nor will the decline in their marginal tax rates reduce the gain from the tax advantages by much (see Figure 1 in Chapter I). The advantages of 401(k) plans will be reduced significantly for those highly paid employees whose marginal tax rates will be substantially cut and who will be affected by the \$7,000 ceiling. However, the restrictions placed on IRAs mean that 401(k) plans will be the only voluntary qualified savings plans available to these employees who are covered by another employer plan. Thus, the growth of 401(k) plans is likely to continue, although much of it may come as a replacement for IRAs and other employer plans. Whether 401(k) plans will extend retirement saving to many of those who otherwise would be uncovered by any employer plan remains to be seen.

RETIREMENT INCOMES OF TODAY'S WORKERS

Based on current participation in qualified plans and IRAs, it is possible to project the future retirement benefits of today's workers.

The Projection to 2019. The projection that follows started with a representative sample of people age 25-34 in 1979 and carried current patterns of lifetime work, family status, and retirement to the year 2019 when they will be age 65 to 74.^{13/} A key step was the projection of retirement income from qualified plans and IRAs. Pension income was projected

12. *Survey of Plan Design and Experience in 401(k) Salary Reduction Plans* (New York: Hewitt Associates, 1985), pp. 1-3.

13. The projection is based on a simulation of the Pension and Retirement Income Simulation Model by ICF Incorporated. Appendix C describes the projection in greater detail and refers to further documentation of the simulation.

using the participation patterns documented in the previous section, and employing pension formulas from actual plans. IRA withdrawals were projected using participation and contribution rates observed through 1983. The projection did not include the effects of provisions in the Tax Reform Act of 1986, nor the requirement to share pension benefits with spouses under the Retirement Equity Act of 1984. The effects of these laws on projected outcomes are, however, likely to be modest. ^{14/}

In the year 2019, the projection finds 45 percent of the age group to be single. Three-fourths of the single people are women and few are working full time. Eighty percent of the single women are widowed or divorced. Among couples, one out of five has at least one spouse still working full time. The greater incidence of full-time work among couples is primarily because some of the people in the sample are married to younger spouses.

Incomes of the Elderly in 2019

Economic growth is assumed to average about 1 percent per year over the 40-year projection, raising real incomes by about one-half compared with today. Pension income rises more rapidly than other income sources for the elderly, largely because of increased pension participation among today's workers compared with earlier workers. The projection shows employer pensions being received by two-thirds of the elderly singles and 90 percent of those elderly couples in which neither spouse works full time (referred to as retired couples hereafter). Pension benefits average about 30 percent of total income for singles and retired couples in 2019. The

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14. The Tax Reform Act of 1986 is unlikely to change the projected retirement incomes greatly. The limitation on deductible IRAs, omitted in the projection, is likely to be mostly offset by the expansion of salary reduction plans, also omitted from the projection. The lower tax rates and the changes in the qualification conditions in tax reform are likely to have modest effects on projected retirement incomes for reasons explained later in this chapter and in Chapter IV.

The projection assumes that one-quarter of husbands ignore joint-and-survivor options in their pensions, and that divorces do not result in a division of pension benefits. The Retirement Equity Act and recent court settlements suggest these past practices will change. The Retirement Equity Act has been projected in the PRISM model used here to have modest effects on retirement incomes, but those effects are concentrated on the poorest women. See "The Potential Impact of Changes in Pension Regulation on Women's Retirement Income," Public Research Institute and ICF Incorporated, December 1985, pp. IV-1 to VI-9.

incidence of pension receipt and its share of total income are only about half as large today. ^{15/}

Poverty. Poverty remains a substantial problem for elderly singles in 2019. The poorest quartile are near or below the poverty line, and the average income of the poorer half is 125 percent of the poverty level. In 1984, by comparison, 28 percent of their counterparts were in poverty and 41 percent had incomes below 125 percent of the poverty line. Poverty in the projections is primarily the plight of single elderly women, as it is today. Over 90 percent of those in the poorer half of singles in the projection are women. Their low incomes arise from limited work experience and from inadequate provision for income after divorce or death of a spouse.

Social Security is the mainstay of income among lower-income singles and retired couples in 2019. Nearly all receive it, and it provides around 70 percent of income for those in the poorer half of singles and almost 60 percent for those in the poorer half of retired couples. Though Social Security is less important for those in the top half of the income distribution, it still contributes about one-third of income.

Pension Income. By contrast, pensions are projected to be an important income source among the richer half of the elderly in 2019. Eighty-four percent of the richer half of singles receive pensions, accounting for one-third of their income. About 50 percent of the poorer half of singles receive pensions, which contribute only around 10 percent of their income. Pension income is more evenly distributed among retired couples, contributing 19 percent of income to the poorer half and 38 percent to the top half. IRA income, if it had not been restricted by tax reform, would be even more tilted to higher-income retirees than pension income, but only about one-quarter as large.

Variations in Pension Income. The amount of pension income varies considerably among people of similar retirement incomes in 2019. These differences in pension income reflect variation in the number of years they participated in a single pension plan. Those with long participation under a single employer receive substantially more pension income than those with shorter tenures. For example, among retired couples whose incomes fall in the lower-middle-income quartile, those with 20 or more years under a plan

15. Susan Grad, *Income of the Population 55 and Over, 1984*, U.S. Department of Health and Human Services (1985), pp. 3 and 90.

average pensions of \$10,800; while those with fewer years under one plan average pensions of \$3,400 (in 1984 dollars). Total incomes are kept similar in the quartile by offsetting variation in income from personal saving, earnings, and Social Security.

Long job tenures under a single plan lead to higher pension income for three main reasons. Those without long tenure on one job may have few years under any pension. Further, those with short tenures may have failed to vest at some jobs. Finally, defined benefit plans that base pension benefits on final pay give substantially lower benefits to employees who leave much before retirement, since their final pay does not reflect inflation or real salary growth between leaving and retirement. For example, the pension of a person leaving a defined benefit plan 15 years before retirement would be eroded by 15 years of inflation--a 45 percent reduction in value at the projection's 4 percent inflation rate. Nor would the pension reflect any real salary growth in the last 15 years of employment. Both of these influences, however, would raise the pensions of the long-service workers in defined benefit plans. (See Chapter II for further discussion of job tenure and benefits in defined benefit plans.)

Variations in job tenure tend to be greatest between men and women. Consequently, the longest tenure of single people, most of whom are women, averages 15 years compared with 21 years for couples. Substantial variation in plan tenures also exists among singles and among couples. For example, in the lower-middle-income quartile of couples, 18 percent have less than 9 years for their longest plan tenure, 35 percent have longest tenures of 9 years to 19 years, and 47 percent have longest tenures of 20 years or more.

GAINS IN RETIREMENT INCOME FROM THE TAX ADVANTAGES

The projection to 2019 incorporates the tax treatment for qualified saving that existed in 1986. That is, contributions to IRAs and most contributions to pension plans are deductible from income, interest earned by qualified accounts is not taxed, and pension payments and withdrawals from IRA accounts are fully taxable.

An estimate of the income gain allowed by these tax advantages can be obtained by making an alternative projection in which qualified saving is taxed annually, like a regular savings account. The differences in after-tax retirement incomes between the two projections is the contribution of the tax advantages to retirement incomes.

More precisely, incomes in the second (annual tax) projection are calculated using the same lifetime patterns for people described above, except that:

- o Employers pay their pension contributions directly to employees as taxable wages. Contributions to IRAs are not deductible.
- o Employees maintain their current consumption, and save for retirement the after-tax remainder of amounts that were employer-plan contributions or IRA contributions in the projection under current law.
- o Earnings of all savings accounts are included in taxable income in the year they accrue. The marginal tax on the earnings is paid from the earnings so that the accounts accumulate at an after-tax rate.

Thus, in the absence of the tax advantages, people are assumed to save for retirement in taxable savings accounts. At retirement, the accounts are used to purchase life annuities as is done with pension funds in the projection under current law. Because people in the annual-tax alternative reduce their retirement accounts by the amount of the tax due, they allocate no more nor less of their personal consumption to saving in the absence of the tax advantages. Thus, the gain in retirement income is simply the accumulated value of the tax advantages. 16/

If the tax advantages led people to change their behavior by, say, consuming less and saving more, then their retirement incomes would rise by more than the cumulated value of the tax advantages. The projections used here assume that people do not change their saving behavior because of the tax advantages, an assumption that is broadly consistent with the limited evidence available (see Chapter IV).

The Size and Distribution of Gains

The tax advantages increase retirement incomes in 2019 by 14 percent for singles, 21 percent for retired couples, and 12 percent for working couples.

16. The procedure for calculating the gain from the tax advantages is essentially the same as in the simple example of Table 1 in Chapter I. The main difference is that the pattern of contributions in the projections is intended to reflect probable lifetime patterns. Appendix C provides further background on the two projections and the saving assumption.

For example, after-tax income for retired couples in 2019 is projected to average about \$26,100 under annual taxation of retirement savings and \$31,500 under current law, for a 21 percent difference (see Table 22).

Underlying the average income gains are strong correlations of the gain with income levels and plan tenure. For example, in Table 22 the income gain in the lowest-income quartile for retired couples is 14 percent compared with 24 percent in the highest-income quartile. Likewise, in Table 24 the income gain for retired couples with less than 20 years under a single pension plan averages 11 percent compared with 28 percent for those with longer participation.

Gains Distributed by Income. Gains from the tax advantages are correlated with retirement income because higher retirement incomes generally are based on higher earnings in the working years. Higher earnings mean higher tax rates and of course higher tax rates increase the gain from the tax advantages. Also, people with higher earnings save more, relative to their incomes, in qualified plans and IRAs. They do so because a higher proportion of them participate in pensions and IRAs, and because in integrated plans they accrue benefits at a higher rate.

The gains from the tax advantages are distributed most unevenly among singles (see Table 22), where they raise retirement income of the lowest-income quartile by 2 percent and of the lower-middle-income quartile by 5 percent but raise the incomes of the upper-middle-income and highest-income quartiles by 11 percent and 21 percent.^{17/} Because the gains of the lower-income half of singles are small, nearly all of the benefits go to the upper-income half. Ninety-four percent of the total gain by singles goes to the upper-income half, and 73 percent to the top quartile.^{18/}

The small gains for the lower-income half of singles largely reflect the fate of elderly single women. As noted above, over 90 percent of this group are women. Their gains are small because their own labor force

17. The distribution of income gains from the tax advantages is much less even than the distribution of tax gains used in an earlier study by Korczyk. The primary reason is that the gain used in that study is the gain relative to taxes paid, not relative to after-tax income as used here.

18. Income in the absence of the gain is more evenly distributed--74 percent to the upper-income half, 49 percent to the top quartile.

TABLE 22. GAINS IN AFTER-TAX INCOME IN THE YEAR 2019 (In 1984 dollars)

Quartiles of Income Under Annual Tax Projection	Average Income Under Annual Tax Projection	Average Gain From Tax Advantages	Percent Increase	Quartile Percentage Share of Total Gain
Single People in 2019				
All	12,389	1,760	14	100.0
Q1	5,070	116	2	0.3
Q2	8,210	394	5	5.8
Q3	12,484	1,405	11	20.8
Q4	23,683	4,908	21	72.9
Couples Retired in 2019				
All	26,085	5,410	21	100.0
Q1	14,276	1,965	14	9.1
Q2	21,345	3,630	17	16.7
Q3	27,426	6,133	22	28.3
Q4	41,240	9,883	24	45.8
Couples Working in 2019				
All	51,173	6,282	12	100.0
Q1	30,659	2,677	9	10.6
Q2	43,166	4,706	11	18.6
Q3	55,415	6,058	11	24.0
Q4	75,128	11,611	15	46.6

SOURCE: Congressional Budget Office.

NOTE: All incomes are after-tax incomes.

participation and that of their divorced or deceased husbands leave them little income from qualified plans. Many women receive little income from plans because women are less likely to be in the labor force than men, and when they do work they are less likely to participate in a plan and less likely to participate for as many years. Many women lose pension contributions by leaving jobs before vesting, and some of these women would be better off if the contributions had been paid directly as wages and saved in taxable accounts. The tax advantages are often small for these women because their earnings and tax rates are low, so the loss of unvested contributions offsets the small gains from tax-free accumulation in qualified accounts. Pensions from husbands may be understated slightly in the projection, thereby understating slightly the gain of lower-income single women (as discussed in footnote 14).

The distribution of the gain is more uniform among retired couples than among singles because the lower-income half shares in the gains of the tax advantages, which raises incomes of retired couples by 14 percent in the lowest-income quartile and 24 percent in the highest-income quartile. That spread is substantially narrower than the comparable 2 percent to 21 percent spread among singles. The narrower spread in gains means that a smaller share of total benefits falls to the upper-income half of retired couples. Nonetheless, a strong tilt toward upper-income groups remains. Seventy-four percent of the gains accrue to the upper-income half, and 46 percent go to the top quartile. ^{19/}

Gains are much more evenly distributed among couples in which at least one spouse works full time, since the gains of higher-income couples in this group are held down. Frequently both spouses in high-income couples are working full time, so the retirement income gains these couples ultimately will receive are not reflected in incomes for 2019. This is, of course, only temporary. When one or both of the spouses retire sometime after 2019, the couple will receive a large boost in retirement incomes from the tax advantages.

Gains Distributed by Plan Tenure. Gains from the tax advantages are correlated with plan tenure because longer plan tenure means higher pension saving and greater interest accumulation. As discussed above, people who work most of their careers under one plan will have more qualified plan saving than those who work many years without any plan. Further, people

19. Income in the absence of the gain is more evenly distributed--66 percent to the upper-income half and 40 percent to the top quartile.

who work under a single plan will have more qualified plan saving than others who spread the same years of participation among more than one plan. Spreading plan participation among different plans reduces total plan saving because vesting requirements are less likely to be met and because defined benefit plans are structured to favor the long-term employee. Tables 23 to 25 show the gains by plan tenure.

The projections find that bigger differences in gain exist between short and long plan tenures than between low and high incomes. Table 24 shows that among retired couples, for example, those with a plan tenure of less than 20 years gain an average 11 percent from the tax advantage, while those with the longer tenures gain 28 percent. In contrast, the lower-

TABLE 23. GAINS IN AFTER-TAX INCOME BY PLAN TENURE IN THE YEAR 2019 FOR SINGLES (In 1984 dollars)

Quartiles of Income Under Annual Tax Projection	Years of Longest Plan Tenure	Average Income Under Annual Tax Pro- jection	Average Gain From Tax Advantage	Percent Increase
All	Under 20	10,337	596	6
	20+	17,610	4,755	27
Q1	Under 20	5,014	44	1
	20+	5,472	1,416	26
Q2	Under 20	8,144	98	1
	20+	8,467	1,552	18
Q3	Under 20	12,361	722	6
	20+	12,760	2,927	23
Q4	Under 20	22,179	2,105	9
	20+	24,976	7,323	29

NOTE: All incomes are after-tax incomes.

income half gains 15 percent while the upper-income half gains 23 percent.^{20/} Singles and working couples are also projected to have larger differences in gains by plan tenure than by income.

The differences between long and short tenure remain large within the income quartiles. Thus, among people projected to have similar retirement incomes under annual income taxation, large differences in gain occur as a result of different plan tenures. Among retired couples in the lower-middle-income quartile, for example, those with short and long plan tenures would have similar incomes except for the different gains from the tax advantages. Their incomes in the absence of the tax advantages are

TABLE 24. GAINS IN AFTER-TAX INCOME BY PLAN TENURE IN THE YEAR 2019 FOR RETIRED COUPLES (In 1984 dollars)

Quartiles of Income Under Annual Tax Projection	Years of Longest Plan Tenure	Average Income Under Annual Tax Pro- jection	Average Gain From Tax Advantage	Percent Increase
All	Under 20	23,088	2,540	11
	20+	29,006	8,205	28
Q1	Under 20	13,936	1,104	8
	20+	14,975	3,829	26
Q2	Under 20	21,081	2,150	10
	20+	21,649	5,331	25
Q3	Under 20	27,452	3,700	13
	20+	27,406	8,019	29
Q4	Under 20	39,764	4,638	12
	20+	41,943	12,379	30

NOTE: All incomes are after-tax incomes.

20. Based on averages of appropriate quartile gains in Table 22.

\$21,100 and \$21,600, while their respective gains are 10 and 25 percent (see Table 24). In higher-income quartiles, the gains of those with both short and long plan tenures rise, reflecting the correlation between gain and income. Still, the differences between short and long tenure remain large.

The disparity in gains by job tenure causes much of the disparity in gains among income quartiles. The reason is that long plan tenure is much more common at higher income levels. Thus, the distribution of gains by income quartiles is more even among people all of whom have plan tenures of under 20 years than it is among people of all plan tenures. The same is true for people all of whom have plan tenures of 20 or more years (see

TABLE 25. GAINS IN AFTER-TAX INCOME BY PLAN TENURE IN THE YEAR 2019 FOR WORKING COUPLES (In 1984 dollars)

Quartiles of Income Under Annual Tax Projection	Years of Longest Plan Tenure	Average Income Under Annual Tax Pro- jection	Average Gain From Tax Advantage	Percent Increase
All	Under 20	48,609	3,778	8
	20+	53,713	8,761	16
Q1	Under 20	30,293	1,490	5
	20+	31,152	4,276	14
Q2	Under 20	43,188	3,138	7
	20+	43,136	6,767	16
Q3	Under 20	55,164	4,281	8
	20+	55,614	7,478	13
Q4	Under 20	74,578	7,312	10
	20+	75,504	14,547	19

NOTE: All incomes are after-tax incomes.

Tables 23-25). ^{21/} The importance of plan tenure to the income distribution of gains means that much of the disparity among income quartiles arises because higher-income retirees typically have more years of plan contributions, more often stay to vest, and, in defined benefit plans, more often stay until retirement.

Lifetime Gains

Income gains from the tax advantages are not limited to a single year, as in the foregoing tables. Gains occur in every year a person receives a plan benefit or IRA withdrawal.

The annual gains in other years would not all be the same as those calculated here for the year 2019. For example, one spouse might retire before the other, so that the gains in the couple's early years of retirement would represent only one spouse's gains; after the second spouse retired, the annual gain could rise if that spouse also participated in qualified plans or an IRA. Similarly, one spouse could die before the other, leaving the survivor with reduced gains. For such couples, the above tabulation for working couples, retired couples, and singles could roughly describe their lifetime pattern of income gains.

Effects of the 1986 Tax Reform

The Tax Reform Act of 1986, if applied to the projection for 2019, would probably reduce the average gain by a modest amount and also slightly reduce the inequality of its distribution. The features of the reform that would have these effects are the reduction in marginal tax rates, the nondeductibility of IRAs, and the added conditions for plan qualification.

The average reduction in marginal tax rates will be about five percentage points according to CBO calculations. This modest reduction holds for most participants in qualified plans, who will therefore experience only a slight reduction in gains from qualified plans.

21. The importance of tenure to the income distribution of gains may be somewhat overstated in Tables 23-25 because the model used in making the projections does not reduce a person's other saving when that person has pension saving. In a more complete model, the income distribution of gains might be more equal, and more of the inequality that remains might be the result of differences in tax rates among income groups, plan integration with Social Security, and other factors.

The highly paid, who will have larger reductions in tax rates, will experience large reductions in gain from qualified savings.^{22/} Such large reductions in gain among the highest paid will tend to equalize the distribution of gains among different income groups, but this equalization will cause only a modest change in the distribution of gains in Table 22. One reason is that the Current Population Survey on which the projection is based did not reflect earnings over \$70,000 or so in 1984 dollars; another reason is that very few people, even in the top quartile of the income distribution, paid the top tax rates. For example, in 1983 only 2 percent of all taxpayers (or 8 percent of the top quartile) paid marginal rates over 40 percent.

The nondeductibility provision for most IRAs should also modestly reduce and equalize the gain from the tax advantages. Higher-paid people with pensions are the heaviest users of IRAs, and those affected by the change. The limited size of IRA contributions, however, and the possibility that some of these contributions could be diverted to 401(k) plans, means that the effects will be modest.

Other provisions of the tax reform act such as those expanding coverage, shortening vesting, and reducing integration with Social Security could also increase the equality among benefits received from tax advantages. But the net effects of these changes also should be modest, as discussed in Chapter V.^{23/}

Gains: the Overall Picture

The gains from the tax advantages can be an important source of income for retirees. The projections reported here calculate that these gains add an average of 14 percent to incomes for singles and 21 percent for couples. These gains are not evenly distributed among retirees. They are considerably larger for higher-income people, and the gains for lower-income singles, most of whom are women, average under 5 percent. Higher-income people gain disproportionately more because they are more likely to participate for many years in qualified plans, have higher tax rates, and

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22. Figure 1 in Chapter I shows how lowering tax rates will reduce the gain from the tax advantages for those paying top income tax rates and those paying average rates.
 23. The projected size and distribution of gains from the tax advantages are also sensitive to offsetting revenue increases, effects of state and local income taxes, economic and demographic assumptions, and other influences, as discussed in Appendix C.

accrue benefits at faster rates because of plan integration with Social Security. The gains are still more uneven among people with different tenures under a single plan. For example, gains of retired couples with tenures of 20 years or more average 28 percent compared with 11 percent for couples with shorter tenure. Legislative changes can alter the distribution of gains reported here since most of these gains will accrue in the future, between now and 2019. The Tax Reform Act of 1986 already has worked to even out the disparities projected here, but should not cause a major change. Options for further changes are considered in Chapter VI.